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Mary Mosiman, CPA
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NEWS RELEASE

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FOR RELEASE June 12, 2014

Auditor of State Mary Mosiman today released a report on a special investigation of the City of Menlo for the period January 1, 2001 through May 31, 2013. The special investigation was requested by City officials as a result of concerns regarding certain transactions prepared by the former City Clerk, Brenda Simmons.

Mosiman reported the special investigation identified \$82,893.51 of improper and unsupported disbursements. The \$81,632.74 of improper disbursements identified include:

- \$62,362.75 of payments made by the City for health insurance coverage which should have been paid by Ms. Simmons and the City's former maintenance employee, John Freeman,
- \$6,430.21 of unauthorized payroll and the City's share of related FICA and IPERS payments,
- \$12,679.78 of additional payroll issued to Ms. Simmons because of an improper increase in hourly wages and the City's share of related FICA and IPERS payments, and
- \$160.00 of interest paid to IPERS.

The \$1,260.77 of unsupported disbursements identified includes \$1,073.27 of payments to Ms. Simmons and \$187.50 of payments to Ms. Simmons' husband. Mosiman reported it was not possible to determine if additional improper disbursements were made because sufficient records were not readily available.

The report includes recommendations to strengthen the City's internal controls and overall operations, such as improving segregation of duties, performing bank reconciliations, requiring adequate documentation to support disbursements, and performing an independent review of bank statements. In addition, all disbursements should be approved by the City Council.

Copies of the report have been filed with the Division of Criminal Investigation, the Guthrie County Attorney's Office, and the Attorney General's Office. A copy of the report is available for review on the Auditor of State's website at <http://auditor.iowa.gov/specials/1322-0367-BE00.pdf> and in the Office of Auditor of State.

**REPORT ON SPECIAL INVESTIGATION
OF THE
CITY OF MENLO

FOR THE PERIOD
JANUARY 1, 2001 THROUGH MAY 31, 2013**

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Auditor of State's Report

To the Honorable Mayor and
Members of the City Council:

As a result of alleged improprieties regarding certain disbursements and at your request, we conducted a special investigation of the City of Menlo. We have applied certain tests and procedures to selected financial transactions of the City for the period January 1, 2001 through May 31, 2013. Based on a review of relevant information and discussions with City officials and personnel, we performed the following procedures:


- (1) Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- (2) Reviewed activity in the City's checking account to identify any unusual activity.
- (3) Scanned images of redeemed checks issued from the City's checking account to determine reasonableness and examined certain disbursements to determine if they were appropriate, properly approved, and supported by adequate documentation.
- (4) Examined certain deposits to the City's checking account to determine the source, purpose, and propriety of each deposit and to determine if deposits were made intact and in a timely manner.
- (5) Reviewed payroll disbursements to Brenda Simmons, the former City Clerk, and the City's maintenance employees to determine the propriety of the payments, if the appropriate number of payroll disbursements were made and if the amounts were appropriate. We also reviewed other payments to the City's employees.
- (6) Confirmed payments to the City by the State of Iowa since July 1, 2003 and by Guthrie County since July 1, 2007 to determine if they were properly deposited to the City's checking account in a timely manner.
- (7) Reviewed available minutes to identify significant actions taken by the City Council and to determine if certain payments were properly approved.


These procedures identified \$82,893.51 of improper and unsupported disbursements. It was not possible to determine if additional improper disbursements were made because sufficient records were not readily available. Several internal control weaknesses were also identified. Our detailed findings and recommendations are presented in the Investigative Summary and **Exhibits A** through **C** of this report.

The procedures described above do not constitute an audit of financial statements conducted in accordance with U. S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of financial statements of the City of Menlo, other matters might have come to our attention that would have been reported to you.

Copies of this report have been filed with the Division of Criminal Investigation, the Guthrie County Attorney's Office, and the Attorney General's Office.

We would like to acknowledge the assistance and many courtesies extended to us by the officials and personnel of the City of Menlo during the course of our investigation.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 21, 2014

City of Menlo
Investigative Summary

Background Information

The City of Menlo is located in Guthrie County and has a population of approximately 350 according to the 2010 census. The City operates City Hall and the Community Center. Brenda Simmons became the City Clerk on January 28, 1991. As the City Clerk, Ms. Simmons was responsible for the following functions:

- 1) Receipts – collecting, posting to the accounting records, and preparing and making bank deposits,
- 2) Disbursements – making purchases, receiving certain goods and services, presenting disbursements to the City Council for approval, maintaining supporting documentation, preparing, signing and distributing checks, and posting payments to the accounting records,
- 3) Payroll – calculating, preparing, signing, and distributing checks and posting payments to the accounting records,
- 4) Bank account – receiving and reconciling monthly bank statements to accounting records, and
- 5) Reporting – preparing City Council meeting minutes and financial reports, including monthly Clerk reports.

In addition to the City Clerk, the City employs a full-time maintenance employee. The City also occasionally hires individuals on a seasonal, part-time basis to assist the City maintenance employee.

The City's primary revenue sources include local option sales tax and road use tax from the State of Iowa and property tax collected by Guthrie County and remitted to the City. Revenue is also received from customers for sewer service. The City receives payments from the State electronically. All other payments are collected through the mail, in person, or in the collection box at City Hall. Ms. Simmons did not prepare receipts for all collections or record the collections on an initial receipts listing.

All City disbursements, including payroll, are to be made by check. All disbursements are to be supported by invoices or other appropriate documentation obtained by or submitted to the City Clerk. Each month, the City Clerk is to prepare a listing of bills and provide the listing to the City Council for approval. After the City Council approved the bills, the City Clerk was to prepare and sign the checks. The checks only required the City Clerk's signature.

The City maintains a checking account at a local bank. The City also has a credit card account and charge accounts at 2 area vendors. Monthly statements for the City's checking account and credit card account are mailed directly to City Hall where they are opened by the City Clerk. Bank statements and check images are not periodically reviewed by members of the City Council. The bank statements are not reconciled or independently reviewed.

According to the former Mayor, Ms. Simmons was to maintain hours from 8:00 a.m. to 4:00 p.m. at City Hall on Tuesday and Thursdays. She was also to work on Fridays as required to complete assigned duties.

According to the former Mayor, the current City maintenance employee, Lawrence ("Jake") Faust, asked in early April 2013 if he could add his spouse to the health insurance plan he was provided by the City. When the former Mayor contacted the City's insurance agent regarding the request,

the insurance agent told the former Mayor the City's current monthly premium was \$2,055.44. According to the former Mayor, he thought that amount seemed excessive for the premium for the authorized single coverage plans provided to the City Clerk and the maintenance employee. Based on further discussions with the City's insurance agent, the former Mayor determined the City Clerk had included her husband on her insurance policy without the City Council's knowledge or consent.

After the former Mayor informed the City Council of what he learned, the City Council placed Ms. Simmons on a 30-day paid administrative leave, effective April 3, 2013. According to the former Mayor, Ms. Simmons claimed the City Council authorized her switching from single insurance coverage to a family plan. As a result, the City Council asked her to provide documentation which showed the authorization.

At the May 1, 2013 City Council meeting, Ms. Simmons did not provide the documentation requested. After the City Council accepted Ms. Simmons' resignation, which was effective May 3, 2013, the City Council contacted the City's attorney regarding Ms. Simmons' actions. As a result of the concerns identified, City officials requested the Office of Auditor of State review the City's financial transactions. We performed the procedures detailed in the Auditor of State's report for the period January 1, 2001 through May 31, 2013.

Detailed Findings

These procedures identified \$82,893.51 of improper and unsupported disbursements for the period January 1, 2001 through May 31, 2013. The \$81,632.74 of improper disbursements identified include:

- \$62,362.75 of payments made by the City for health insurance coverage which should have been paid by Ms. Simmons and the City's former maintenance employee, John Freeman,
- \$6,430.21 of unauthorized payroll and the City's share of related FICA and IPERS payments,
- \$12,679.78 of additional payroll amounts issued to Ms. Simmons because of an improper increase in hourly wages and the City's share of related FICA and IPERS payments, and
- \$160.00 of interest paid to IPERS.

We were unable to determine if additional improper disbursements were made because sufficient records were not readily available.

The unsupported disbursements of \$1,260.77 include \$1,073.27 of payments to Ms. Simmons and a \$187.50 payment to Leroy Simmons, Ms. Simmons' husband. All findings are summarized in **Exhibit A** and a detailed explanation of each finding follows.

IMPROPER DISBURSEMENTS

We reviewed disbursements from the City's checking account and images of individual redeemed checks for the period January 1, 2001 through May 31, 2013. Information prior to January 1, 2001 was not readily available. We also reviewed information recorded in the City's payroll registers and accounting software. In addition, we reviewed available documentation for certain payments to determine if they were appropriate; however, supporting documentation was not available for all disbursements. In addition, we contacted a representative of Wellmark to obtain information regarding specific coverage and copies of certain documents.

Based on our review of the available supporting documentation, the vendor, the frequency and the amount of payments, and discussions with City officials, we classified the payments as reasonable, improper, or unsupported. Payments were classified as unsupported if the City

Council approved the payment but appropriate documentation was not available or if it was not possible to determine if the payment was related to City operations or was personal in nature. The improper and unsupported disbursements identified are explained in detail in the following paragraphs.

Payments for Health Insurance

The minutes of the January 6, 1993 City Council meeting document the City Council approved offering health insurance coverage to the City's employees. Specifically, the minutes state the City Council approved an insurance vendor to "cover City employees, Simmons and Freeman, and they will decide whether to add families at their own expense." As a result, the minutes clearly document the incremental cost of a family plan over a single plan was to be paid by the employee if an employee preferred to establish a family plan. During our review of minutes from City Council meetings held from 1993 through May 2013, we did not identify any further action taken by the City Council regarding the insurance coverage offered to employees.

Overpayments by the City - The City's payroll register documents the amounts withheld from Ms. Simmons' and each maintenance employee's gross pay for health insurance premiums and the City's portion of the health insurance premiums. We were able to reconcile the amounts recorded in the payroll register to the checks issued by the City for the employees' health insurance premiums. From January 1, 2001 through June 30, 2001, the health insurance premiums were paid to National Health. Premiums for insurance coverage effective July 1, 2001 through May 31, 2013 were issued to Wellmark.

Based on information obtained from Wellmark, the City's insurance policy included family coverage for Ms. Simmons and the City's former maintenance employee, John Freeman. The policy became effective on July 1, 2001. Mr. Freeman, who no longer works for the City, continued to receive family coverage until February 1, 2008. Ms. Simmons was not included in the City's insurance policy from February 1, 2005 through May 31, 2005. However, she resumed family plan coverage effective June 1, 2005, which remained in effect until May 1, 2013 when she switched from family to single health insurance coverage. As previously stated, Ms. Simmons' resignation was effective May 3, 2013. While Ms. Simmons' remained on the City's insurance policy and received single coverage after that date through COBRA, she reimbursed the City for the cost of the coverage. The City's insurance policy also included single coverage for Mr. Faust, a maintenance employee, from December 1, 2007 through May 31, 2013.

As previously stated, we obtained information directly from Wellmark, including the single and family coverage rates effective from July 1, 2001 through May 31, 2013. We were unable to obtain documentation of the type of coverage Ms. Simmons and Mr. Freeman received from National Health from January 1, 2001 through June 30, 2001 and National Health's premium costs of single and family coverage for that period.

By reviewing the information recorded in the City's payroll register, premium costs obtained from Wellmark, and the checks issued to Wellmark, we determined Ms. Simmons did not deduct the incremental cost of a family plan over a single plan for either herself or Mr. Freeman when she prepared payroll checks. In addition, we did not identify any separate payments made by Ms. Simmons or Mr. Freeman to pay for the incremental costs. **Exhibit B** includes the overpayments made by the City for Ms. Simmons' and Mr. Freeman's insurance coverage for the period July 1, 2001 through May 31, 2013. The **Exhibit** also includes the amounts which Ms. Simmons did not properly deduct from the gross pay for Mr. Freeman or herself. Because we were unable to determine the cost of single and family coverage provided to the employees from January 1, 2001 through June 30, 2001, we did not identify any additional costs Ms. Simmons and Mr. Freeman should have paid for family coverage for this period.

As illustrated by **Exhibit B**, the City incurred \$62,362.75 of extra costs for the family coverage provided to Ms. Simmons and Mr. Freeman. Of this amount, Ms. Simmons and Mr. Freeman should have contributed \$48,142.43 and \$14,220.32, respectively. The \$62,362.75 of additional costs paid by the City is included in **Exhibit A** as improper disbursements.

Improper Recordings in Payroll Register - Because Mr. Faust received single coverage rather than family coverage, he was not responsible for any portion of the cost of the health insurance the City provided him. By reviewing the information recorded in the City's payroll register, we confirmed the City properly paid the entire cost of his single coverage insurance premium. As a result, Mr. Faust is not included in **Exhibit B**.

As stated previously, Ms. Simmons was not included in the City's insurance policy from February 1, 2005 through May 31, 2005. As a result, she did not contribute toward the cost of the City's insurance policy during this period. As illustrated by **Exhibit B**, Ms. Simmons' payments for the year ended June 30, 2005 were significantly less than the prior year. However, the **Exhibit** also illustrates the amount Ms. Simmons paid was less than the prior year for the years ended June 30, 2003, 2004, 2008 and 2009. Because Ms. Simmons and Mr. Freeman both received family coverage, the total employer's and employee's shares of insurance costs recorded in the payroll register should have been the same. However, when we reviewed the amounts Ms. Simmons recorded in the payroll registers for insurance costs, we identified the following:

- While the total employer's and employee's shares recorded in the payroll registers were the same during 2001 and 2002, Ms. Simmons "shifted" some of her employee's share to the employer's share in early 2003 and continued the practice. **Table 1** illustrates the shift identified.

Table 1

Per Payroll Register						
Date	Brenda Simmons			John Freeman		
	Employee's Share	Employer's Share	Total	Employee's Share	Employer's Share	Total
12/27/02	\$ 34.79	48.15	82.94	34.79	48.14	82.93
01/03/03	28.54	54.40	82.94	34.79	48.14	82.93

- Near the beginning of fiscal year 2004, Ms. Simmons prepared the payroll register in a manner which showed the employer's share agreed for Ms. Simmons and Mr. Freeman, but the employees' shares did not. As a result, the total shown for Ms. Simmons was less than it should have been and the total shown for Mr. Freeman was more than it should have been. **Table 2** illustrates the amounts recorded.

Table 2

Per Payroll Register						
Date	Brenda Simmons			John Freeman		
	Employee's Share	Employer's Share	Total	Employee's Share	Employer's Share	Total
08/05/03	\$ 28.54	51.23	79.77	34.79	51.23	86.02

- When Ms. Simmons' coverage resumed in June 2005, she equally divided the cost of the total premium recorded in the payroll register between herself and Mr. Freeman. However, the amount she recorded for the employer's share of her premium exceeded the amount she recorded for the employer's share for Mr. Freeman. As a result, the employee's share she recorded for herself was less than the employee's share she recorded for Mr. Freeman. **Table 3** illustrates the amounts recorded.

Because the cost difference between single and family coverage in July 2005 was \$232.99 per month, the payroll register should have reflected \$58.25 as the employee's share withheld from both Ms. Simmons' and Mr. Freeman's weekly

payroll checks. The employer's share which should have been recorded for both employees' weekly paycheck should have been \$87.38, which was the cost of single coverage for each employee.

Table 3

Per Payroll Register						
Date	Brenda Simmons			John Freeman		
	Employee's Share	Employer's Share	Total	Employee's Share	Employer's Share	Total
08/05/05	\$ 28.54	117.09	145.63	34.79	110.84	145.63

These differences explain why the amounts shown in **Exhibit B** are different for Ms. Simmons and Mr. Freeman, even though they received the same insurance coverage and were responsible for contributing the same share of the premiums.

Payments Presented to the City Council for Approval - As stated previously, Ms. Simmons was responsible for preparing, signing, and distributing all checks, posting the payments to the accounting records, and maintaining supporting documentation for each disbursement. She was also responsible for ensuring all disbursements were included in a listing to be approved by the City Council prior to payment.

During our review of the images of redeemed checks issued from the City's checking account, we identified 164 checks totaling \$177,239.36 issued to Wellmark. The 164 checks were for 144 months of health insurance premiums for the City's employees. For most months, Ms. Simmons issued 1 check for the month's insurance premium. However, for some months, she issued multiple checks or no check at all.

According to the former Mayor, the City Council was not aware of how much the City was paying for health insurance each month. He also stated the City Council was not aware Ms. Simmons had been receiving benefits under a family plan. As previously stated, when Mr. Faust requested family health insurance coverage, the former Mayor contacted the City's insurance agent to determine the cost. The insurance agent told him the City's current monthly premium, which the former Mayor thought was excessive for the authorized single coverage plans provided to Ms. Simmons and Mr. Faust.

Table 4 summarizes the amounts the City paid for the employees' health insurance coverage for fiscal years 2002 through 2004 and the amount Ms. Simmons included on the monthly disbursement listing for the City Council's approval.

Table 4

Fiscal Year	Amount Paid Each Month	Amount Reported to City Council Each Month
2002	\$ 578.34	300.00
2003	663.48	300.00
2004	937.94	385.16

In addition, Ms. Simmons included \$385.16 on 5 of the monthly disbursements listings provided to the City Council for its approval during fiscal year 2005 when the City was actually paying \$1,023.92 per month. For the remaining 7 months of fiscal year 2005, Ms. Simmons did not include the monthly premium on the disbursement listing for the City Council's approval. In addition, she did not include the monthly premium on any of the disbursement listings provided to the City Council during fiscal years 2006 through 2013. During this period, the recurring monthly premiums paid by the City ranged from \$1,147.03 to \$2,055.44.

Unauthorized Payroll

As previously stated, Ms. Simmons became the City Clerk on January 28, 1991. According to the City Council meeting minutes, Ms. Simmons was to receive a weekly paycheck. As the City Clerk, she was responsible for preparing payroll checks for herself and the City's maintenance employees.

We reviewed the City's payroll register and images of redeemed checks from City's bank statements from January 1, 2001 through May 31, 2013. During our review, we identified 10 instances for which Ms. Simmons issued 2 payroll checks to herself and 8 instances for which she issued 2 payroll checks to Mr. Freeman. In each case, both checks were redeemed. The additional unauthorized payroll checks identified are listed in **Table 5**. The **Table** also includes the City's share of FICA and IPERS incurred for the unauthorized payroll.

Table 5

Date	Check Number	Payee	Gross Amount	Employer's Share of		Total [^]
				FICA	IPERS	
02/23/01	11675	John Freeman	\$ 183.45	14.03	10.55	208.03
12/14/01	12137	John Freeman	580.90	44.44	33.40	658.74
12/14/01	12139	Brenda Simmons	205.00	15.68	11.79	232.47
12/21/01	12143	John Freeman	580.90	44.44	33.40	658.74
08/30/02	12500	Brenda Simmons	215.00	16.45	12.36	243.81
09/13/02	12529	Brenda Simmons	220.00	16.83	12.65	249.48
09/27/02	12539	Brenda Simmons	215.00	16.45	12.36	243.81
10/11/02	12570	Brenda Simmons	155.00	11.86	8.91	175.77
11/01/02	12589	Brenda Simmons	60.00	4.59	3.45	68.04
12/13/02	12660	John Freeman	592.90	45.36	34.09	672.35
12/13/02	12662	Brenda Simmons	211.30	16.16	12.15	239.61
12/27/02	12762	John Freeman	592.90	45.36	34.09	672.35
12/27/02	12763	Brenda Simmons	181.08	13.86	10.41	205.35
12/12/03	13187	John Freeman	592.90	45.36	34.09	672.35
12/19/03	13190	John Freeman	592.90	45.36	34.09	672.35
12/19/03	13192	Brenda Simmons	211.30	16.16	12.15	239.61
07/23/04	13468	Brenda Simmons	217.64	16.62	-	234.26
10/06/06	14669	John Freeman	73.28	5.60	4.21	83.09
Total			\$ 5,681.45	434.61	314.15	6,430.21

[^] - Unauthorized payroll for John Freeman and Brenda Simmons total \$4,298.00 and \$2,132.21, respectively.

Using the payroll register and images of redeemed checks from the City's checking account, we did not identify any additional payroll checks Ms. Simmons issued to herself or Mr. Freeman after October 6, 2006. The \$6,430.21 of unauthorized payroll and the City's share of FICA and IPERS are included in **Exhibit A** as improper disbursements.

Improper Pay Increases for Brenda Simmons

As the City Clerk, Ms. Simmons was responsible for preparing, signing, and distributing all payroll checks and recording the related information in the City's payroll register. Based on our review of the payroll register, Ms. Simmons was paid on an hourly basis. During our review of minutes of City Council meetings and resolutions, we identified 10 pay raises approved by the City Council for Ms. Simmons between January 1, 2001 and May 31, 2013.

We determined the hourly rate used by Ms. Simmons to calculate her payroll from January 1, 2001 through December 31, 2005 agreed with the amount authorized by the City Council. However, for the pay raise approved by the City Council which was effective January 1, 2006,

Ms. Simmons started using an hourly rate which exceeded the amount authorized by the City Council. Resolution #103-05, which was approved by the City Council on December 7, 2005, authorized a 3% raise for Ms. Simmons. By multiplying the 3% raise by Ms. Simmons' prior hourly rate, we determined her authorized hourly rate should have increased to \$10.99. However, based on the payroll register, Ms. Simmons began paying herself an hourly rate of \$12.48, which was a 16.96% increase.

For Ms. Simmons' 4 remaining pay raises prior to her resignation, Ms. Simmons complied with the percentage or dollar increase approved by the City Council. However, these increases also resulted in hourly rates which exceeded her authorized rate because of the "built-in" effect of the unauthorized increase which was effective January 1, 2006.

Table 6 compares Ms. Simmons' authorized gross pay for January 1, 2006 through May 31, 2013 to the proper amount of gross pay calculated using the authorized hourly rates. The **Table** also includes the amount of gross pay overpaid by the City and the related employer's share of FICA and IPERS for the unauthorized payroll.

Table 6						
Calendar Year	Actual Gross Pay	Authorized Gross Pay	Improper Disbursements			
			Difference	FICA	IPERS	Total
2006	\$ 12,096.76	10,675.89	1,420.87	108.70	81.70	1,611.27
2007	12,355.44	10,884.48	1,470.96	112.53	88.99	1,672.48
2008	12,704.74	11,217.50	1,487.24	113.77	92.28	1,693.30
2009	13,177.39	11,608.59	1,568.80	120.01	102.02	1,790.83
2010	13,172.77	11,719.52	1,453.25	111.17	98.78	1,663.20
2011	13,410.28	11,870.56	1,539.72	117.79	115.96	1,773.47
2012	13,410.28	11,870.56	1,539.72	117.79	128.87	1,786.38
2013*	5,157.80	4,565.60	592.20	45.30	51.34	688.85
Total	\$ 95,485.46	84,412.70	11,072.76	847.07	759.96	12,679.78

* - Through her resignation, which was effective May 3, 2013.

We compared the amount of gross pay reported to IPERS and on Ms. Simmons' W-2 forms for 2006 through 2013 and did not identify any significant variances. The amounts reported agreed with the amounts recorded in the payroll register, which exceeded Ms. Simmons' authorized payroll. As a result, the covered wages which will be used by IPERS to determine retirement benefits for Ms. Simmons has been overstated.

The \$12,679.78 resulting from improper pay increases summarized in **Table 6** are included **Exhibit A** as improper disbursements.

Reimbursements to Brenda Simmons

According to a City official we spoke with, it would be reasonable for Ms. Simmons to receive reimbursements for mileage, training, and various office supplies. We identified 76 checks issued to Ms. Simmons during the period January 1, 2000 through May 31, 2013. The checks were not included in the payroll register and appear to be for reimbursements. They are listed in **Exhibit C** and range from \$12.00 to \$121.60.

As previously stated, Ms. Simmons was responsible for preparing, signing and distributing all checks, posting the payments to the accounting records, and maintaining supporting documentation for each disbursement. In addition, all reimbursements were to be approved by the City Council. We were unable to locate supporting documentation for any of the 76 checks listed in **Exhibit C**.

Based on the checks' description in the accounting system or the payee, frequency, and amount, we determined 43 of the 76 checks identified were for life insurance premiums. Based on our review of City Council minutes, we determined none of the 43 checks were approved by the City Council. According to the former Mayor, he was unaware of any provision which authorized Ms. Simmons to be reimbursed for life insurance premiums. However, during our review of minutes of City Council meetings and various City Council resolutions, we determined the City Council approved a resolution on December 1, 1999 which allowed Ms. Simmons to be reimbursed up to \$7.50 per month for life insurance. As a result, the 43 checks, which total \$1,095.26, were classified as reasonable.

Based on our review of City Council minutes, we determined 8 of the 33 remaining checks were approved by the City Council. However, because supporting documentation was not available, we were unable to determine if the payments were for City operations or were personal in nature. As a result, the \$1,073.27 total of remaining checks was classified as unsupported. The \$1,073.27 of unsupported disbursements listed in **Exhibit C** is also included in **Exhibit A**.

Other Disbursements

As previously stated, we reviewed all checks Ms. Simmons issued from the City's checking account for the period of our investigation. We also reviewed a listing of disbursements by vendor which was prepared from the City's accounting system. In addition, we reviewed disbursement listings approved by the City Council, minutes of City Council meetings, available supporting documentation, and discussed certain disbursements with the former Mayor. Based on our review of the vendor, the frequency and amount of payments, available supporting documentation, and discussions with the former Mayor, we determined the reasonableness of the disbursements.

During our review, we determined Ms. Simmons issued check number 13288 to her husband, Leroy Simmons, on March 3, 2004. The check was for \$187.50 and was not supported by documentation. In addition, the check was not included in the disbursement listing approved by the City Council or referred to in the City Council minutes. Based on a discussion with the former Mayor, we were unable to determine the purpose of the payment. Because we were unable to determine if the payment was for City operations or was personal in nature, the \$187.50 is included in **Exhibit A** as an unsupported disbursement.

IPERS Interest

We obtained annual statements for IPERS for fiscal years 2001 through 2013 which summarize the wages reported by the City and the related payments. During our review of the statements, we determined the City paid \$160.00 of interest for the months of July 2009 through February 2010 because payments were not remitted in a timely manner. The \$160.00 is included in **Exhibit A** as an improper disbursement.

COLLECTIONS

As previously stated, the City's primary revenue sources include taxes from the State of Iowa and Guthrie County. In addition, the City receives revenue for providing sewer service to residents. We reviewed documentation related to these revenue sources to determine if collections were properly deposited.

Taxes from the State of Iowa – The majority of revenues received from the State of Iowa are road use tax and local option sales tax. We confirmed all payments to the City by the State of Iowa and determined they were properly deposited to the City's checking account. However, we determined the City's Library maintains a separate bank account and accounting records. We were unable to trace the payments issued by the State of Iowa to the City's Library to deposits in the Library's bank account.

Taxes from Guthrie County – We confirmed all payments to the City by Guthrie County were properly deposited to the City’s checking account.

Water and Sewer Fees – Water service has been contracted through Xenia Rural Water District since 1998. The City also contracted sewer service through Xenia Rural Water District effective in January 2014. Prior to January 2014, each household and business was billed each month for service. Monthly reconciliations of the amounts billed, collected, deposited, and delinquent amounts were prepared. Based on our review, the amount of collections for billings appeared reasonable.

During our review of the fees billed, collected and deposited, we determined a delinquent customer was placed on a repayment schedule in January 2013 by Ms. Simmons without the knowledge or approval of the City Council. We did not identify any other payment plans established for delinquent accounts. According to a City official we spoke with, the account for which a payment plan was established is no longer delinquent.

Recommended Control Procedures

As part of our investigation, we reviewed the procedures used by the City of Menlo to perform bank reconciliations and process receipts, disbursements and payroll. An important aspect of internal control is to establish procedures which provide accountability for assets susceptible to loss from error and irregularities. These procedures provide the actions of one individual will act as a check on those of another and provide a level of assurance errors or irregularities will be noted within a reasonable time during the course of normal operations. Based on our findings and observations detailed below, the following recommendations are made to strengthen the City's internal controls.

- A. Segregation of Duties – An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The former City Clerk had control over each of the following areas:
- (1) Receipts – collecting, depositing and posting.
 - (2) Disbursements – making purchases, receiving certain goods and services, presenting disbursements to the City Council for approval, maintaining supporting documentation, preparing, signing and distributing checks and posting payments.
 - (3) Payroll – calculating, preparing, signing and distributing checks and posting payments.
 - (4) Bank accounts – receiving and reconciling monthly bank statements to accounting records.
 - (5) Reporting – preparing City Council meeting minutes and financial reports, including monthly Clerk register reports.
 - (6) Computer system – performing all general accounting functions and controlling all data input and output.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the duties within each function listed above should be segregated between the City Clerk, the Mayor, and/or City Council members. The Mayor or City Council members should review financial records, perform reconciliations, and examine supporting documentation for accounting records on a periodic basis.

Also, the City should ensure more than 1 signature is required on all of the City's checks. If a signature stamp is used for the countersignature, it should not be held in the custody of the City Clerk or applied by the City Clerk.

In addition, bank statements should be delivered to an official who does not collect or disburse City funds. The bank statements should be reviewed in a timely manner for unusual activity. Bank reconciliations should be performed monthly and should be reviewed by someone independent of other financial responsibilities.

- B. Reconciliation of Utility Billings, Collections and Delinquent Accounts – Sewer billings, collections and delinquent accounts are not independently reviewed on a periodic basis.

Recommendation – Procedures should be established to ensure utility billings reconciliations and delinquent accounts for each billing period are independently reviewed. The City Council, or other independent person designated by the City Council, should review the reconciliations and monitor delinquent accounts. Delinquent accounts should not be written off or put on payment plans without City Council approval.

- C. Disbursements – During our review of the City’s disbursements, the following were identified:

- (1) Disbursements were not supported by invoices or other documentation.
- (2) Not all disbursements were approved by the City Council.
- (3) The City incurred interest for IPERS payments which were not remitted in a timely manner.

Recommendation – All City disbursements should be approved by the City Council prior to payment, with the exception of those specifically allowed by a City Council approved policy. For those disbursements paid prior to City Council approval, a listing should be provided to the City Council at the next City Council meeting for review and approval. All payments should be remitted in a timely manner to ensure late fees and interest are not incurred.

To strengthen internal control, each check should be prepared and signed by one person and detailed supporting vouchers and invoices should be provided, along with the check, to a second independent person for review and countersignature.

- D. City Council Oversight – The City Council has a fiduciary responsibility to provide oversight of the City’s operations and financial transactions. Oversight is typically defined as the “watchful and responsible care” a governing body exercises in its fiduciary capacity.

Based on our observations and procedures performed, we identified the City Council failed to exercise proper fiduciary oversight. The lack of appropriate oversight and failure to ensure implementation of adequate internal controls permitted an employee to exercise too much power over the operation of the City. The City Council frequently relied on information from the City Clerk without adequate supporting documentation or information.

Recommendation – Oversight by the City Council is essential and should be an ongoing effort by all members. City Council members should exercise due care and require and review pertinent information and documentation prior to making decisions affecting the City.

In addition, appropriate procedures should be adopted, implemented and monitored to ensure compliance with established policies.

- E. City Council Minutes – Chapter 21 of the *Code of Iowa* requires minutes to be kept of all meetings of governmental bodies. During our review of minutes, we determined:

- Not all minutes available for review were properly signed by the City Clerk or the Mayor to authenticate the record as required by section 380.7(4) of the *Code of Iowa*.
- Not all disbursements were presented to the City Council for approval.

Recommendation – The City should implement procedures to ensure the City Clerk and the Mayor sign all meeting minutes and the minutes are reviewed so any errors can be identified and corrected. In addition, the City Council should ensure all City obligations are presented to the City Council for approval prior to payment.

The City Council should also ensure all minutes, including bill listings to be approved by the City Council, are maintained at City Hall and an official copy is kept in the City Council meeting book.

Exhibits

Report on Special Investigation of the
City of Menlo

Summary of Findings
For the Period January 1, 2001 through May 31, 2013

Description	Exhibit/Table/ Page Number	Amount		
		Improper	Unsupported	Total
Improper and unsupported disbursements:				
Overpayments for health insurance*	Exhibit B	\$ 62,362.75	-	62,362.75
Unauthorized payroll^	Table 5	6,430.21	-	6,430.21
Improper pay increases for Brenda Simmons	Table 6	12,679.78	-	12,679.78
Reimbursments to Brenda Simmons	Exhibit C	-	1,073.27	1,073.27
Other disbursements	Page 12	-	187.50	187.50
IPERS interest	Page 12	160.00	-	160.00
Total ~		\$81,632.74	1,260.77	82,893.51

* - Overpayments to Brenda Simmons and John Freeman total \$48,142.43 and \$14,220.32, respectively.

^ -Unauthorized payroll for John Freeman and Brenda Simmons total \$4,298.00 and \$2,132.21, respectively.

~ - Brenda Simmons and John Freeman benefited from \$64,375.19 and \$18,518.32 of these disbursements, respectively. In addition, Brenda Simmons was responsible for the \$160.00 of IPERS interest.

Report on Special Investigation of the
City of Menlo

Improper Insurance Payments
For the Period January 1, 2001 through May 31, 2013

Period	Payments Made By			
	City of Menlo	Brenda Simmons*	John Freeman*	Total
07/01/01 - 06/30/02	\$ 3,677.35	1,627.09	1,633.84	6,938.28
07/01/02 - 06/30/03	4,771.92	1,519.92	1,669.92	7,961.76
07/01/03 - 06/30/04	8,354.70	1,369.92	1,530.76	11,255.38
07/01/04 - 06/30/05	7,770.16	799.12	1,669.92	10,239.20
07/01/05 - 06/30/06	10,969.14	1,341.38	1,669.92	13,980.44
07/01/06 - 06/30/07	15,518.64	1,369.92	1,669.92	18,558.48
07/01/07 - 06/30/08	17,181.58	1,276.84	974.12	19,432.54
07/01/08 - 06/30/09	12,538.55	1,225.92	-	13,764.47
07/01/09 - 06/30/10	13,896.35	1,225.92	-	15,122.27
07/01/10 - 06/30/11	14,720.62	1,225.92	-	15,946.54
07/01/11 - 06/30/12	19,637.80	1,225.92	-	20,863.72
07/01/12 - 05/31/13	20,629.84	1,098.22	-	21,728.06
Total	\$ 149,666.65	15,306.09	10,818.40	175,791.14

* - Payments identified were deductions from gross pay recorded in the payroll registers.

What Should Have Been Paid By				Overpayments/(Underpayments) By		
City of Menlo	Brenda Simmons	John Freeman	Total	City of Menlo	Brenda Simmons	John Freeman
2,774.28	2,082.00	2,082.00	6,938.28	903.07	(454.91)	(448.16)
3,184.80	2,388.48	2,388.48	7,961.76	1,587.12	(868.56)	(718.56)
4,502.26	3,376.56	3,376.56	11,255.38	3,852.44	(2,006.64)	(1,845.80)
4,095.60	2,457.44	3,686.16	10,239.20	3,674.56	(1,658.32)	(2,016.24)
5,591.96	4,194.24	4,194.24	13,980.44	5,377.18	(2,852.86)	(2,524.32)
7,423.68	5,567.40	5,567.40	18,558.48	8,094.96	(4,197.48)	(3,897.48)
9,270.58	6,418.08	3,743.88	19,432.54	7,911.00	(5,141.24)	(2,769.76)
7,865.39	5,899.08	-	13,764.47	4,673.16	(4,673.16)	-
8,641.19	6,481.08	-	15,122.27	5,255.16	(5,255.16)	-
9,112.78	6,833.76	-	15,946.54	5,607.84	(5,607.84)	-
11,922.52	8,941.20	-	20,863.72	7,715.28	(7,715.28)	-
12,918.86	8,809.20	-	21,728.06	7,710.98	(7,710.98)	-
87,303.90	63,448.52	25,038.72	175,791.14	62,362.75	(48,142.43)	(14,220.32)

Report on Special Investigation of the
City of Menlo

Reimbursements to Brenda Simmons
For the Period January 1, 2001 through May 31, 2013

Per Check Image						
Date	Check Number	Payee	Amount	Reasonable	Unsupported	
05/19/00	11191	Brenda Simmons	\$ 38.00	-	38.00	
05/22/00	11196	Brenda Simmons	56.50	-	56.50	
08/31/00	11383	Brenda Simmons	22.50 #	22.50	-	
11/22/00	11516	Brenda Simmons	22.50 #	22.50	-	
01/12/01	11620	Brenda Simmons	32.18	-	32.18	
02/28/01	11694	Brenda Simmons	22.50 #	22.50	-	
03/14/01	11714	Brenda Simmons	121.60	-	121.60	
03/21/01	11720	Brenda Simmons	20.66	-	20.66	
04/20/01	11763	Brenda Simmons	33.80	-	33.80	
08/10/01	11947	Brenda Simmons	80.00	-	80.00	
11/19/01	12091	Brenda Simmons	22.50 #	22.50	-	
01/04/02	12158	Brenda Simmons	22.50 #	22.50	-	
04/29/02	12321	Brenda Simmons	22.50 #	22.50	-	
07/30/02	12420	Brenda Simmons	22.50 #	22.50	-	
10/14/02	12572	Brenda Simmons	34.12	-	34.12	
11/13/02	12612	Brenda Simmons	51.00	-	51.00	
01/17/03	12691	Brenda Simmons	15.30	-	15.30	
02/07/03	12735	Brenda Simmons	22.50 #	22.50	-	
04/02/03	12806	Brenda Simmons	22.50 #	22.50	-	
04/18/03	12845	Brenda Simmons	28.80	-	28.80	
07/14/03	12966	Brenda Simmons	22.50 #	22.50	-	
08/08/03	12990	Brenda Simmons	24.80	-	24.80	
09/10/03	13049	Brenda Simmons	24.80	-	24.80	
10/01/03	13075	Brenda Simmons	22.50 #	22.50	-	
01/30/04	13246	Brenda Simmons	22.50 #	22.50	-	
06/09/04	13410	Brenda Simmons	22.34	-	22.34	
11/03/04	13618	Brenda Simmons	67.50 #	67.50	-	

Report on Special Investigation of the
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Reimbursements to Brenda Simmons
For the Period January 1, 2001 through May 31, 2013

Per Check Image						
Date	Check Number	Payee	Amount		Reasonable	Unsupported
03/30/05	13839	Brenda Simmons	45.00	#	45.00	-
04/29/05	13892	Brenda Simmons	22.50	#	22.50	-
06/30/05	13976	Brenda Simmons	22.50	#	22.50	-
09/21/05	14110	Brenda Simmons	25.60		-	25.60
10/10/05	14147	Brenda Simmons	40.00		-	40.00
10/19/05	14163	Brenda Simmons	26.50		-	26.50
12/30/05	14280	Brenda Simmons	64.87		-	64.87
01/27/06	14334	Brenda Simmons	45.00	#	45.00	-
02/15/06	14344	Brenda Simmons	32.00		-	32.00
03/27/06	14391	Brenda Simmons	15.00	#	15.00	-
07/31/06	14597	Brenda Simmons	45.00	#	45.00	-
02/28/07	14852	Brenda Simmons	45.00	#	45.00	-
07/01/07	15016	Brenda Simmons	22.50	#	22.50	-
09/20/07	15140	Brenda Simmons	15.00		-	15.00
10/01/07	15158	Brenda Simmons	22.50	#	22.50	-
12/05/07	15238	Brenda Simmons	12.00		-	12.00
02/11/08	15386	Brenda Simmons	22.50	#	22.50	-
04/14/08	15459	Brenda Simmons	22.50	#	22.50	-
06/02/08	15532	Brenda Simmons	16.50		-	16.50
07/08/08	15622	Brenda Simmons	38.60		-	38.60
08/20/08	15680	Brenda Simmons	22.50	#	22.50	-
10/22/08	15776	Brenda Simmons	32.00		-	32.00
11/10/08	15793	Brenda Simmons	22.50	#	22.50	-
12/24/08	15869	Brenda Simmons	32.90	*	-	32.90
01/30/09	15926	Brenda Simmons	20.90	*	-	20.90
03/04/09	15953	Brenda Simmons	22.50	#	22.50	-
03/12/09	15958	Brenda Simmons	21.00		-	21.00
05/11/09	16031	Brenda Simmons	22.76	#	22.76	-

Exhibit C

Report on Special Investigation of the
City of Menlo

Reimbursements to Brenda Simmons
For the Period January 1, 2001 through May 31, 2013

Per Check Image						
Date	Check Number	Payee	Amount		Reasonable	Unsupported
08/28/09	16221	Brenda Simmons	22.50	#	22.50	-
11/16/09	16338	Brenda Simmons	22.50	#	22.50	-
03/19/10	16494	Brenda Simmons	22.50	#	22.50	-
06/25/10	16635	Brenda Simmons	22.50	#	22.50	-
08/18/10	16730	Brenda Simmons	22.50	#	22.50	-
10/12/10	16831	Brenda Simmons	15.40	*	-	15.40
11/05/10	16861	Brenda Simmons	22.50	#	22.50	-
12/10/10	16935	Brenda Simmons	35.20	*	-	35.20
02/09/11	16996	Brenda Simmons	22.50	#	22.50	-
04/22/11	17136	Brenda Simmons	20.90	*	-	20.90
06/17/11	17235	Brenda Simmons	22.50	#	22.50	-
08/16/11	17351	Brenda Simmons	22.50	#	22.50	-
09/26/11	17409	Brenda Simmons	12.25	*	-	12.25
11/16/11	17508	Brenda Simmons	22.50	#	22.50	-
12/16/11	17561	Brenda Simmons	12.25	*	-	12.25
03/26/12	17676	Brenda Simmons	22.50	#	22.50	-
05/25/12	17775	Brenda Simmons	15.50	*	-	15.50
06/15/12	17814	Brenda Simmons	22.50	#	22.50	-
09/24/12	17939	Brenda Simmons	22.50	#	22.50	-
12/12/12	18036	Brenda Simmons	22.50	#	22.50	-
02/20/13	18105	Brenda Simmons	22.50	#	22.50	-
Total			<u>\$2,168.53</u>		<u>1,095.26</u>	<u>1,073.27</u>

* - Approved by the City Council.

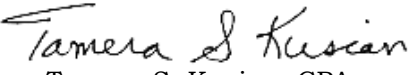
- Based on the check's description in the accounting system, the payee, frequency, or amount, the check was determined to be a reimbursement for life insurance premiums.

Report on Special Investigation of the
City of Menlo

Staff

This special investigation was performed by:

Annette K. Campbell, CPA, Director
Ryan T. Jelsma, Senior Auditor


Tamera S. Kusian, CPA
Deputy Auditor of State